ABEL-BLACK CORPORATION LIMITED

ANNUAL REPORT 1970

ABEL-BLACK CORPORATION LIMITED

Annual Report 1970

FINANCIAL HIGHLIGHTS

	1970
Sales	$12,048,519
Net Earnings	551,475
Working Capital	1,811,397
Total Assets	5,020,727
Shareholders' Equity	3,890,070
Earnings per Share	31¢
Shares Outstanding	1,759,000

DIRECTORS AND OFFICERS

WILLIAM E. BLACK
Chairman and Executive Vice President

CHARLES ABEL
Director and President

ROBERT F. BLACK
Director and Vice President, Retail Sales

WILLIAM J. HUNTLEY
Director and Treasurer

CLARKE ABEL
Director and Secretary

GERALD F. BROOKS
Director and Vice President, Photofinishing

DONALD E. BOXER
Director

HEAD OFFICE

10 Dyas Road, Don Mills, Ontario.

AUDITORS

Messrs. McDonald, Currie & Co., 120 Adelaide Street West, Toronto, Ont.

SOLICITORS

Messrs. Miller, Thomson, Hicks, Sedgewick, Lewis & Healy, Toronto.

BANKERS

The Toronto-Dominion Bank, King & Yonge Streets, Toronto.

Canadian Imperial Bank of Commerce, Parkwoods Village Branch, Don Mills.

Bank of Nova Scotia, Church and Queen Streets, Toronto.

TRANSFER AGENT

Canada Permanent Trust Company.

STOCK LISTING

The Toronto Stock Exchange.

UNDERWRITER

Burns Bros. & Denton Limited, Toronto-Dominion Centre, Toronto.

TO OUR SHAREHOLDERS

Our first annual report as a public company reflects satisfactory results for the year under review with sales of $12,048,519; net earnings of $551,475: and earnings per share of 31¢ (using the total shares outstanding at March 31, 1970). An historical financial review is on page 13.

The Company was formed to combine Chas. Abel Photo Service and Eddie Black's Limited—both of which have long histories in the photographic business. Operations include wholesale photofinishing, a chain of retail camera stores, the taking and producing of student pictures and the sale of audio-visual equipment to educational institutions.

With increasing picture-taking opportunities through leisure-time activities, travel, and family formations coupled with easy-to-use cameras, we are confident that the benefits of the merger which provided increased capabilities and a strong base for expansion will provide for continued improvement in future results.

Efforts are directed chiefly to two specific segments in the photographic industry—the merchandising of photo equipment and film services to the amateur consumer market and the supply of audio-visual equipment and photographic services to educational institutions.

During the past year, 350,000 treasury shares were issued and on October 1, 1969 the shares of the Company were listed for trading on The Toronto Stock Exchange.

The extension of the building in Don Mills was completed which provided increased space for head office, warehousing and plant facilities. Additional photofinishing equipment was installed at both plants to increase production capacity, improve service, and provide for further increases in future volume.

All divisions improved in revenues and profitability except the student picture division in which net earnings declined drastically. This result was mainly due to a technical change in new production materials used which caused abnormal waste. Divisional management is now able to assure that the necessary remedies will be provided to restore this operation to the position that it will be capable of rendering its proportionate profit contribution within the coming year.

Since the end of our fiscal year two additional retail outlets were opened and another two are planned to open within the next two months. This will bring the total number in the chain to twenty-four.

Sincere appreciation is extended to our shareholders, employees, and suppliers for their co-operation and support during the past year.

CHARLES ABEL
President

W. E. BLACK
Chairman

History

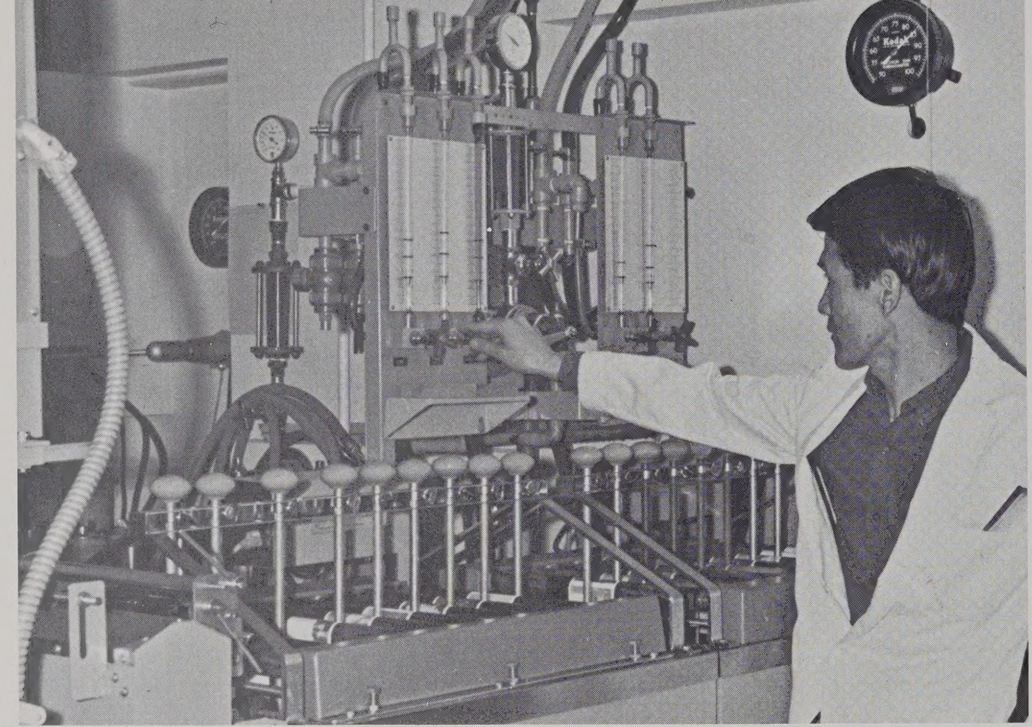
Abel-Black Corporation Limited was incorporated in July, 1969, to acquire the ownership of Eddie Black's Limited and Chas. Abel Photo Service. These two businesses had been established for some 40 and 60 years respectively. Both were family-owned and managed by sons of the founders. The combination of the Abel Company—one of the country's largest independent photofinishers and the Black's Company—the largest retail photographic organization in Canada made a strong foundation for the formation of a public company of substance with experienced management and excellent future-growth prospects.

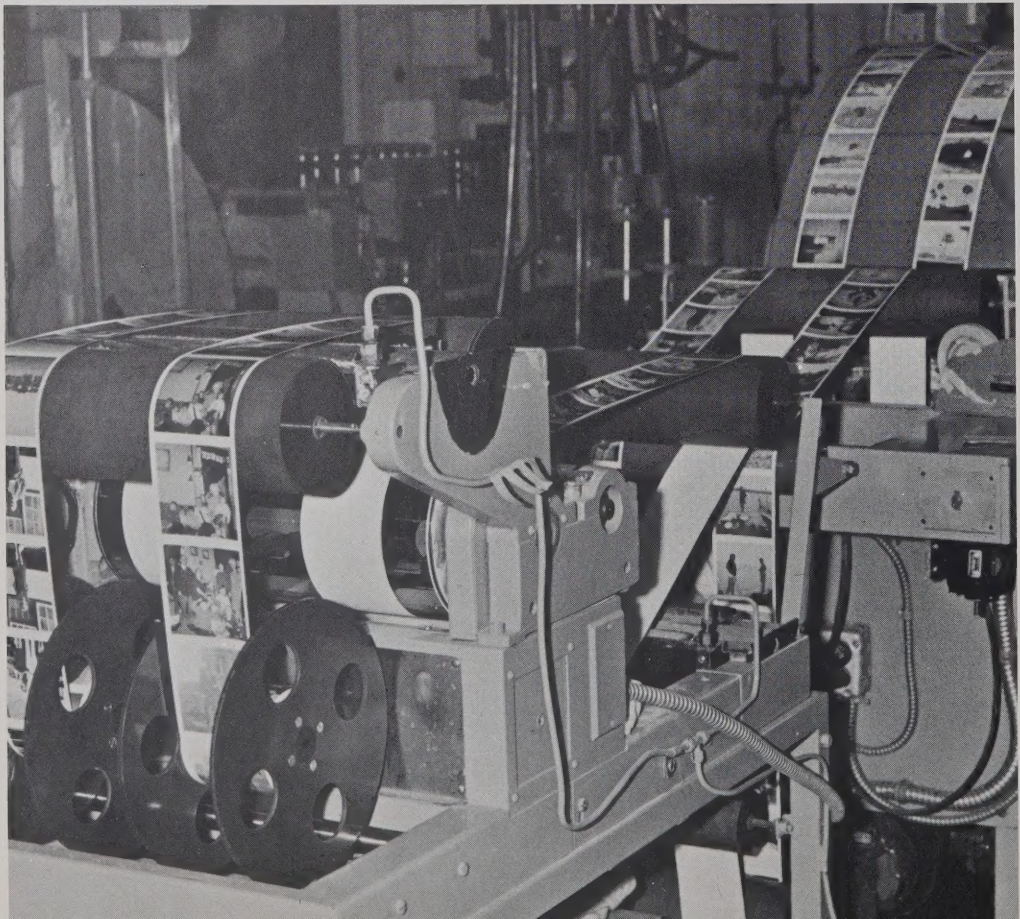
Operations

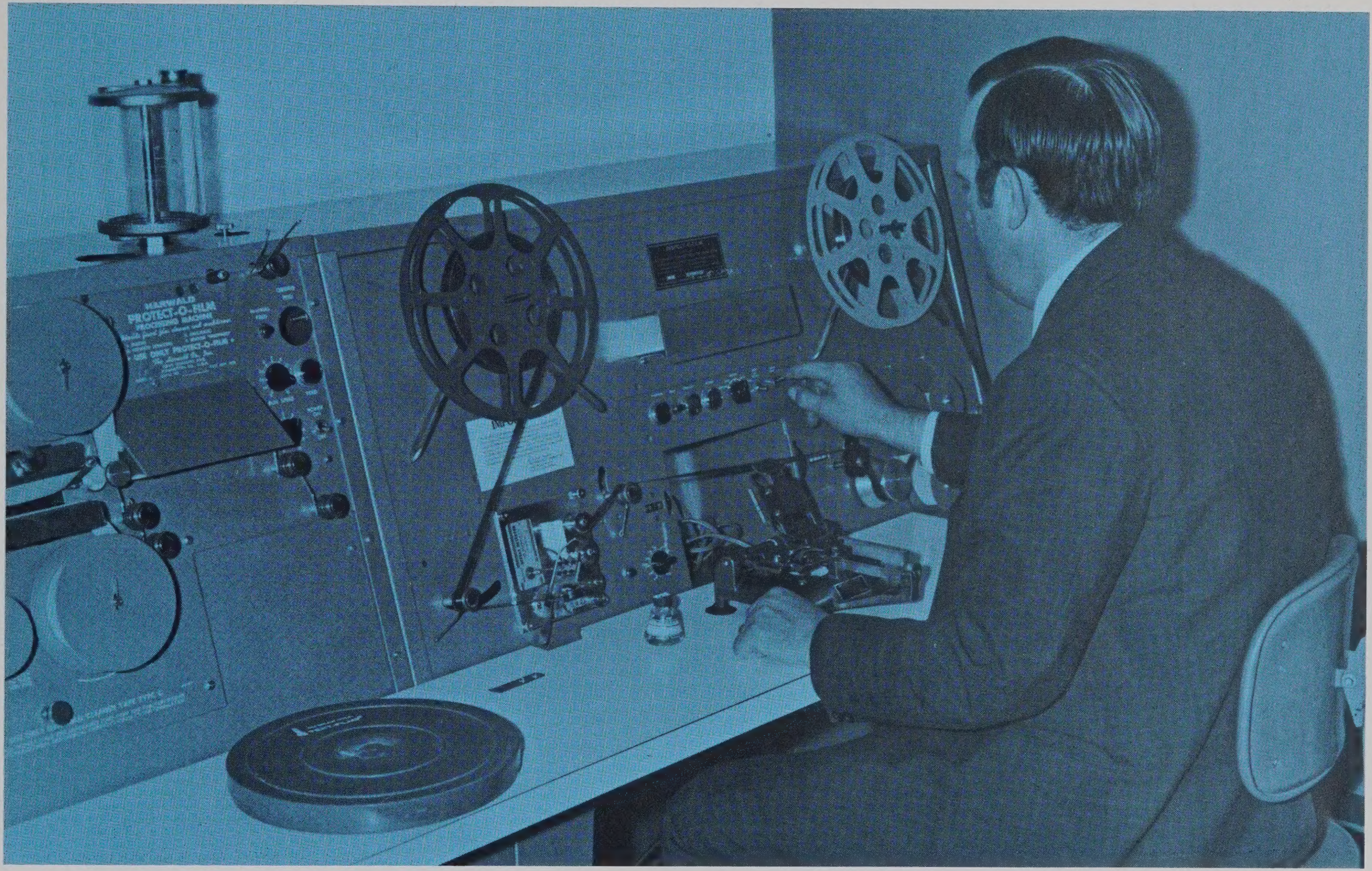
PHOTOFINISHING

The Company operates two plants—one in downtown Toronto which functions primarily to serve over 500 wholesale accounts throughout Canada and the other in the Toronto suburb of Don Mills which provides services to the retail camera stores. These two plants occupy 45,000 square feet and utilize modern equipment coupled with advanced technology to produce the highest quality results in colour and black and white film service. During peak periods, plant personnel numbers as high as 250.

With the recent additions to plant facilities and equipment the present capacity is







sufficient to handle expected volume increases in the next few years.

Where major benefits were to be gained through integration or consolidation within the two plants changes have been made. Since this program was not completed until late in this fiscal year, the results can be expected to reflect more significantly in our next fiscal year.

AUDIO-VISUAL DIVISION

This division provides an extensive product line of some 3,000 items to the audio-visual market. Sales efforts are directed primarily to schools, boards of education, universities, hospitals and religious institutions, and some industrial concerns.

The educational market has increased greatly in the past few years with more reliance placed on sight and sound instruction, resulting in improved student comprehension and higher teacher efficiency. Course programs have become more interesting to the students and teachers are better equipped to present the prescribed program of study through this media. Classroom equipment includes several varieties of projectors—i.e. movie,


BLACK'S CAMERA
CHARGEX
8mm PROJECTOR
mamiya
SAY GOODBYE TO YOUR OLD CAMERA PROBLEMS!
Trade now to a

slide, film strip, overhead and opaque; tape recorders and language lab equipment using taped instructions; screens; tables; record players; plus a great variety of supplies and accessories as well as some very sophisticated equipment, used chiefly in educational resource centres to produce the student instruction material. Products sold by this division are serviced by technicians in our own repair department.

Industry and commerce are increasing their use of audio-visual methods in employee training programs. It is estimated that this market will equal the educational market within the next five years and increased sales efforts will be made in this area as opportunities arise.

RETAIL CAMERA STORES

The Company presently operates twenty "Black's Camera Stores" throughout Ontario and will increase this number to twenty-four within the first six months of the coming fiscal year.

Sales efforts are directed mainly to the amateur photographic market with moderately-priced products merchandised on a high volume basis through concentrated advertising programs. It is felt that the success of these specialty stores is greatly dependent upon the personal contact with customers in an intelligent and appreciative manner which is seldom found in self-serve department stores and other outlets staffed by clerks who are required to serve in a variety of

functions. Great emphasis is placed on comprehensive training of sales personnel in the areas of product knowledge and customer relations.

The introduction of electronic products such as tape recorders and portable radios in some of our locations has been successful. It is intended to expand these product lines wherever increased sales volume and profitability are possible.

STUDENT PICTURE DIVISION

The Company is engaged in the photographing and production of pictures of students at school and in junior athletic organizations. This division operates under the name Canadian School Studios. Colour photographs are taken of individuals and groups and are offered to the students in a variety of combinations at budget prices.

Other services provided include the supply of photos for use in the production of school yearbooks and identity pictures for school records.

A well-established sales force represents the Company in every province. The photographers employed in this division are well qualified and highly skilled in this specialized field.

Special equipment is required to produce the variety of combination prints offered to the students. This equipment is capable of producing several different sized photos on one sheet of paper at one time.

DIRECT MAIL DEPARTMENT

The Company operates direct mail film services under a variety of names. This is a method of obtaining business from areas in which we have neither dealers or our own stores and in particular, rural areas, which would otherwise be impossible to serve. The work received from this source is of great benefit in our efforts to level the plant loadings.

The trend to mail order photofinishing has developed during recent years due principally to the reduced prices to the consumer and the convenience afforded. Substantial increases in revenue were derived from this source last year and major advertising campaigns will be employed this summer in an effort to make further gains.

FUTURE OUTLOOK

In spite of economic reverses experienced in some businesses, we have continued to record modest increases up to this time. Our greatly improved working capital position resulting from the proceeds of the public issue and significant increase in retained earnings has enabled us to complete expansion plans which might otherwise have been deferred. We feel our position in this industry is enviable and, while we recognize that competition may be keen during the ensuing months, we are confident that our purchasing power and merchandising abilities will result in a successful year.

There will be an increased number of wholesale accounts due to the additional locations opened by major chains which we serve. Our own retail stores will continue to expand as choice locations become available. Regional shopping centres are given preference, although any location in a volume consumer traffic area will be considered. One definite opening will be in Sherway Gardens Mall in suburban Toronto early in 1971.

One of the most exciting areas to be expanded in the future is the product development in electronic equipment for the audio-visual market. Our plans and efforts are firmly established to ensure full participation in this growth area.

The Economic Council of Canada projects a rise in recreational durable spending from \$32 per capita in 1967 to \$50 per capita in 1975 (in 1967 constant dollar terms). This factor coupled with the expected continuing increase in population ensures substantial growth in the market we serve.

The photographic industry has made consistent gains during the past decade outpacing the increases in consumer disposable income and we have every reason to believe that this trend will continue.

HISTORICAL FINANCIAL REVIEW

	1970	1969	1968	1967	1966	1965
			Pro forma Consolidated Figures*			
Net Sales	$12,048,519	$10,474,086	$8,877,513	$7,417,203	$5,656,235	$4,809,917
Operating Costs and Other Expenses	10,643,504	9,212,505	7,944,241	6,839,340	5,136,224	4,462,645
Depreciation and Amortization	235,710	149,235	156,042	107,984	83,770	86,930
Interest on Long-Term Debt	12,830	27,393	29,318	28,492	17,718	13,855
Earnings Before Income Taxes	1,156,475	1,084,953	747,912	441,387	418,523	246,487
Income Taxes	605,000	563,223	376,729	228,659	213,471	121,734
Preferred Dividends	—	54	210	210	210	210
Net Earnings	551,475	521,676	370,973	212,518	204,842	124,543
Earnings per Share	31¢	37¢	26¢	15¢	15¢	9¢
Shares Outstanding	1,759,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000

*Note: Pro forma figures include results of Eddie Black's Limited for the years ended March 31 and consolidated results of the Abel Companies for the years ended December 31.

ABEL-BLACK CORPORATION LIMITED

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

as at March 31

	1970 $	1969 $ (Pro forma —note 1)
ASSETS		
CURRENT ASSETS		
Cash	311,532	68,662
Accounts receivable (note 2)		
Trade	785,194	666,056
Other	39,654	143,114
Inventories—at the lower of cost or net realizable value	1,634,676	1,138,038
Prepaid expenses	50,612	32,913
	2,821,668	2,048,783
INVESTMENTS		
Advances to Canadian School Publishers Limited (note 3)	250,000	210,069
Mortgages receivable and real estate	—	36,362
	250,000	246,431
FIXED ASSETS (note 4)	1,268,051	921,663
OTHER ASSETS		
Excess of cost of investment in partnership and subsidiary over book value of net assets at dates of acquisition	614,554	614,554
Picture bookings—at cost, less amounts written off	66,454	52,962
	681,008	667,516
	5,020,727	3,884,393

SIGNED ON BEHALF OF THE BOARD

W. E. BLACK, Director

CHARLES ABEL, Director

	1970 $	1969 $ (Pro forma —note 1)
LIABILITIES		
CURRENT LIABILITIES		
Bank loan (secured)	27,000	829,519
Accounts payable and accrued liabilities	647,415	787,811
Income taxes payable	292,453	313,303
Current portion of long-term debt	43,403	57,120
	1,010,271	1,987,753
LONG-TERM DEBT		
7½% mortgage loan, due March 1987	92,644	95,279
7% conditional sales contracts payable	71,145	91,508
	163,789	186,787
Less: Current portion	43,403	57,120
	120,386	129,667
	1,130,657	2,117,420
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 5)		
Authorized in accordance with letters patent dated July 4, 1969— 3,000,000 shares without par value		
Issued— 1,759,000 shares	1,668,937	
Unpaid subscription (note 6)	40,500	
	1,628,437	930
RETAINED EARNINGS	2,261,633	1,766,043
	3,890,070	1,766,973
	5,020,727	3,884,393

CONSOLIDATED STATEMENT OF EARNINGS

for the Year Ended March 31, 1970 (note 1)

	$
Net sales	12,048,519
Operating costs and other expenses	10,643,504
Depreciation and amortization	235,710
Interest on long-term debt	12,830
	10,892,044
	1,156,475
Provision for income taxes	605,000
Net earnings for the year	551,475
Net earnings per share (note 8)	31¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the Year Ended March 31, 1970 (note 1)

	$
BALANCE—BEGINNING OF YEAR	1,766,043
Net earnings for the year	551,475
	2,317,518
Expense of share issue, less reduction in income taxes applicable thereto	55,885
BALANCE—END OF YEAR	2,261,633

CONSOLIDATED SOURCE AND USE OF WORKING CAPITAL

for the Year Ended March 31, 1970 (note 1)

	$
SOURCE OF WORKING CAPITAL	
Net earnings for the year	551,475
Charges not requiring cash outlay—	
Depreciation and amortization	235,710
Cash flow from operations	787,185
Issue of share capital (note 5)	1,627,507
Proceeds on sale of real estate	27,500
Reduction of long-term portion of mortgage receivable	8,862
	2,451,054
USE OF WORKING CAPITAL	
Expense of share issue (net of income taxes)	55,885
Additions to fixed assets (net)	566,248
Advances to Canadian School Publishers Limited	39,931
Additions to picture bookings	29,342
Reduction of long-term debt	9,281
	700,687
INCREASE IN WORKING CAPITAL	1,750,367
WORKING CAPITAL—BEGINNING OF YEAR	61,030
WORKING CAPITAL—END OF YEAR	1,811,397

for the Year Ended March 31, 1970

1. Principles of Consolidation

Abel-Black Corporation Limited was incorporated under the laws of Ontario on July 4, 1969. Pursuant to agreements dated July 4, 1969, the Company acquired all the issued and outstanding shares of Eddie Black's Limited and the Abel Companies, comprising Charles Abel Limited, Clarke Abel Limited and Dominion School Life Photography Limited, in exchange for the issue of 1,399,993 shares of the Company. This transaction was accounted for as a "pooling of interests" and accordingly the accompanying financial statements include the accounts of all subsidiaries for the year ended March 31, 1970.

The 1969 pro forma balance sheet figures are the combined balance sheet figures of Eddie Black's Limited and the Abel Companies as at March 31, 1969. Comparative figures of earnings for these companies have not been presented because earnings of these companies for a full twelve month period ended March 31, 1969 are not available.

2. Accounts Receivable

Book debts of two subsidiary companies have been pledged as security for the bank loan.

3. Advances to Canadian School Publishers Limited

Under an agreement dated July 24, 1969 between the Company, Charles Abel, Clarke Abel and Canadian School Publishers Limited, Charles Abel and Clarke Abel granted to the Company the option to purchase all the issued and outstanding shares of Canadian School Publishers Limited at the price of $100,000 exercisable at any time prior to July 1, 1972.

Under the agreement the Company has agreed to make advances without interest to Canadian School Publishers Limited from time to time during the term of the option, the total amount of such advances outstanding at any one time not to exceed $250,000. Under the agreement Charles Abel and Clarke Abel have guaranteed repayment of all such advances.

4. Fixed Assets

Fixed assets and related accumulated depreciation are classified as follows:

	Cost $	Accumulated depreciation $	Net $
Land	40,000	—	40,000
Buildings	415,051	43,312	371,739
Machinery and equipment	1,337,801	683,365	654,436
Furniture and fixtures	299,685	186,781	112,904
Motor vehicles	76,218	34,891	41,327
Leasehold improvements	188,704	141,059	47,645
	2,357,459	1,089,408	1,268,051

Depreciation has been recorded at the maximum rates allowable for income tax purposes, except for the plant equipment of Eddie Black's Limited, on which depreciation is recorded at 12½% of original cost per annum.

5. Capital Stock

Subsequent to incorporation the Company issued shares as follows:

	Shares	$
For all the issued capital stock of the predecessor companies		
Eddie Black's Limited	699,997	924
Charles Abel Limited	349,998	3
Clarke Abel Limited	349,998	3
	1,399,993	930
For cash—to incorporators of Company	7	7
For cash—to public	350,000	1,627,500
	350,007	1,627,507
Issued and fully paid	1,750,000	1,628,437
For cash payment over ten years (note 6)	9,000	40,500
	1,759,000	1,668,937

The 1,399,993 shares of Abel-Black Corporation Limited shown above as being issued in consideration for all the issued capital stock of Charles Abel Limited, Clarke Abel Limited and Eddie Black's Limited were issued at a consideration which the directors determined to be the fair equivalent of $7,000,000. Because the acquisition of the subsidiaries has been accounted for on a "pooling of interest" basis, the capital stock issued to acquire these subsidiaries is reflected at an amount of $930, which is equal to the aggregate amount of the issued capital stock of the subsidiaries at the date of acquisition.

Under an agreement dated July 24, 1969 no less than 1,330,000 issued and fully paid shares of the Company are deposited with a Trustee for a period ending July 24, 1976.

6. Stock Options

On July 24, 1969 the Company granted options to purchase an aggregate of 54,000 shares. During the period 9,000 shares were issued upon exercise of stock options for a total consideration of $40,500, payable in ten annual instalments of $4,050 each, commencing August 29, 1970.

The following stock options are outstanding as at March 31, 1970:

Expiry Date	Officers	Key Employees	Option Price
			$
July 31, 1974	25,000	—	5.00
July 31, 1974		20,000	5.50

7. Remuneration of Directors and Senior Officers

Remuneration of Directors and Senior Officers as defined by The Corporations Act of Ontario amounted to $272,406 for the year ended March 31, 1970.

8. Principles of Earnings per Share

Earnings per share has been calculated using the shares outstanding at March 31, 1970. The effect on earnings per share arising from exercise of stock options would not be material.

9. Lease Commitments

The total amount of rentals paid during the year ended March 31, 1970 under leases for retail stores and plant (including additional rent payable as a percentage of sales) was $214,392.

The minimum total rentals under existing leases for retail stores and plant (excluding occupancy charges and additional rent paid as a percentage of sales) will be as follows:

	$
1971-1975	757,806
1976-1980	446,424
after 1980	16,450

10. Loans to Directors and Officers

During the year a subsidiary made loans of up to $182,565 to a director of the Company. These loans were repaid in full by March 31, 1970.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Abel-Black Corporation Limited and subsidiary companies as at March 31, 1970 and the consolidated statement of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at March 31, 1970 and the results of their operations and source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding periods of the predecessor companies.

Toronto, Ontario,
May 27, 1970

McDONALD, CURRIE & CO.
Chartered Accountants